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SUBJECT: Economic Developments in Switzerland

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1. The Swiss Clearing Payments System

The Swiss system of regulating bilaterally payments to and from other countries through a clearing began in 1931, when Switzerland concluded the first two clearing agreements with Austria and Hungary. The group of countries with which Switzerland installed a clearing kept widening continuously until 1943, all such agreements resembling in character that of 1934 with Germany.

On the Swiss side, the juristic basis of all such interstate agreements was, and still is, the Swiss federal decree of 1933 about economic measures relating to dealings with other countries. The Swiss Federal Council was empowered to conclude short term agreements with countries having difficulty in making payments, the object being to protect Swiss interests. Where no such agreements were obtainable, the Swiss Federal Council was authorized to take autonomous measures. The Swiss clearing and payments agreements are therefore not a form of foreign exchange control imposed at Swiss initiative, but are merely measures designed to protect Swiss economy against the consequences of foreign exchange control set up by other countries.

For the exercise of the clearing, the Swiss Compensation Office, a corporative body of legally authorized public status, was founded on 2 October 1934. Every Swiss who has to make a payment of the kind specified in the agreements to a creditor in a country with which Switzerland has a clearing agreement, is under the obligation to pay the amount, when due, into an account controlled by the Swiss Compensation Office. Payments from abroad through the clearing are permissible only under specified conditions. The goods and services to be paid for must be of Swiss origin for use in the country making the payment, that is, may not be reexported from there to a third country. The Swiss Compensation Office has to make sure in every single case that the payment is justified. The extent of the obligations to make payments into the clearing, and the range of claims whose settlement may be demanded through the clearing, varies in the individual agreements. There are, however, always two main groups of payment operations: 1. Those in commercial dealings comprising payments for the

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import and export of goods, for incidental expenses incurred in moving commodities, and for services, for example, in the tourist business, and 2. Those to be made in financial operations, limited as a rule to the transfer of the yield and amortization on invested capital. Movements of investment capital from one country to another are seldom made through the clearing.

As for the manner of effecting payments through the clearing, there are two main forms:

a) The centralized system of payments, in which both incoming and outgoing payments are made exclusively through accounts kept by the Swiss National Bank and the central bank of the country with which Switzerland has a clearing agreement, foreign currencies being evaluated at the fixed rates of exchange stipulated in the clearing agreements. Payments to exporters are made out of the means that accumulate from incoming payments of importers. If the receipts from incoming payments are insufficient to satisfy all current claims to outgoing payments, the creditors must wait. By means of advances by the state, however, the Confederation has often provided the resources needed for effecting payments to creditors and has thereby carried the clearing deficit. This mode of procedure is the basis of all so-called "Clearing agreements."

b) The decentralized system of payments, introduced after the war in new payments agreements, the aim being to simplify the procedure of effecting payments. In this system, not only the central note-issuing banks but also private banks are authorized to keep accounts through which payments are made in transactions under a payments agreement. Of late, the evaluation of foreign currencies has in most cases been made at prevailing market rates, but within the limits of the rates of exchange prescribed by the agreement. In order that no delays should arise in effecting payments, the two countries concerned grant each other mutually a credit of a stipulated amount, only one of the two countries however making use of the credit. For the sake of protection in the event of a unilateral monetary devaluation by the partner country, it is usual to fix a guaranteed rate of exchange in the agreement.

At present Switzerland has clearing agreements with the following countries:

Centralized system of payments:

*Austria	Poland
Bulgaria	*Portugal
Czechoslovakia	Rumania
Finland	Spain
*Greece	*Turkey
Hungary	Yugoslavia

Decentralized system of payments:

Argentina
*Belgium-Luxembourg
*Denmark
Egypt
*France including Algiers, Colonies, Protectorates and mandated territories (exclusive of Syria, Lebanon and French Somaliland)
German Democratic Republic (East-Germany)
*German Federal Republic (West-Germany)
Iran
*Italy
*Netherlands including overseas territories
*Norway
*Sweden
*Sterling area including: United Kingdom of Great Britain and North Ireland, all British dominions (excepting Canada) and all other British territories

* countries belonging to the European Payments Union (EPU)

With all countries unmentioned in the above lists, in particular those of the dollar group, payments are free as far as Switzerland is concerned.

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In 1952, 71% of all Swiss exports were to countries operating with clearing payments, namely, 60% to countries of the EPU and 11% to other countries with which Switzerland has payments agreements. On the other hand, 72% of all Swiss imports came from these countries, namely, 65% from countries belonging to the EPU and 7% from the remaining countries with which Switzerland has payments agreements. Controlled payments therefor account for a great part of the payments arising in foreign trade. Besides that, payments connected with invisible transactions account for a considerable share of the payments passing the clearing. In 1952, such accounted for 21% of all outgoing payments, and even 35% of all the incoming payments of Switzerland.

Incoming and outgoing payments in the Swiss clearing (in millions of francs)

	Members of the EPU *			Other countries with which Switzerland has a clearing agreement**		
	1950	1951	1952	1950	1951	1952
Payments made from Switzerland:						
For goods	2,195	3,192	3,163	333	378	355
For invisible transactions	<u>508</u>	<u>603</u>	<u>829</u>	<u>19</u>	<u>25</u>	<u>27</u>
Total	2,703	3,795	3,992	352	403	382
Payments made to Switzerland:						
For goods	1,642	2,593	2,722	293	342	339
For invisible transactions	<u>833</u>	<u>1,381</u>	<u>1,468</u>	<u>68</u>	<u>101</u>	<u>89</u>
Total	2,475	3,974	4,190	361	443	428

* Payments with Belgium have passed through the clearing only since 11 January 1951.

** Since 8 January 1951 inclusive of payments with Argentina X

In dealings with EPU countries since Switzerland became a member on 1 November 1950, there has been a surplus in cumulative outgoing payments, that is a deficit, only with West-Germany, Austria and France, whereby that with France arose only because of the grant of a bank credit of Fr 100 millions. In EPU settlements, these deficits were set off against the Swiss surpluses with other countries, so that, at the end of 1952, there was a net surplus in favor of Switzerland amounting to Fr 812 millions which, in part, was covered in gold and foreign exchange by the EPU to the total amount of Fr 297 millions, and in part by the grant of credit to the EPU by the Swiss Confederation to the amount of Fr 515 millions. A part of the earlier advances of the credit granted by the Confederation in the clearing was repaid through EPU settlements and former debts were also settled, leaving a balance of Fr 168 millions in favor of Switzerland.

The credits that the Confederation has granted to other countries under the clearing reached a maximum in 1948 when clearing advances aggregated Fr 1135 millions while export advances amounting altogether to Fr 622 millions under payments agreements were outstanding. At the end of 1952, clearing advances and advances arising through payments agreements outside the EPU amounted only to Fr 109 millions.

On the basis of incoming and outgoing payments under the clearing, the following balance of payments of Switzerland with the countries of the EPU and 11 other countries with which Switzerland has clearing agreements, has been tabulated:

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Swiss balance of payments (current account) with countries having clearing system of payments (in Millions of francs)

	1949	1950	1951	1952
Mutual exchange of goods	-109	-534	-591	-436
Other goods traffic	12	- 74	- 72	- 76
Transport costs, chartering of ships	- 91	- 61	- 82	-127
Other incidental costs	- 8	4	30	8
Travelling expenses	235	124	362	374
Wages, contributions, dues	50	45	92	105
Licenses and royalties	50	61	82	102
Electrical energy, gas, water	13	23	24	21
Insurances*	-	21	40	65
Other services and items not specified elsewhere	87	22	83	89
Finance transfers	<u>227</u>	<u>150</u>	<u>251</u>	<u>218**</u>
Total	466	-219	219	343

* In 1949 included in "Other services"; Social insurance payments up till 1951 included in "Other Services".

** Exclusive of the bank credit of Fr 100 millions to France

Although not all payments between Switzerland and the countries with which Switzerland has a payments agreement are made through the clearing, and free payments to and from some other countries are left out of account altogether, the foregoing figures give interesting indications of the structure of the Swiss balance of payments, since payments with all European countries have been taken into account, at least as for 1952.

First of all, it is seen that the current balance of payments of Switzerland is usually active. The passive balance in payments for goods and costs of transport is covered chiefly by the surplus balance in tourist business and by finance transfers. Payments for services and for licenses, royalties and similar items are of great significance too. In 1952 these items yielded a surplus of about Fr 200 millions as against only Fr 100 millions in 1949.

2. Money and Capital Market

In the second quarter year, the Swiss money and capital market was still characterized by marked liquidity. The note circulation and the engagements at sight of the Swiss National Bank, taken together, increased by Fr 127 millions to Fr 6602 millions from mid-March to mid-June. Once again the cause of the increase of the resources on hand was the surplus in the balance of payments, which increased the monetary reserves by Fr 131 millions to Fr 6511 millions. Demand for credit from the economy decreased because of this development and the persistence of the tendency to keep stocks low. In the first five months of the year, the aggregate of the open credits at the 52 banks furnishing reports decreased by Fr 149 millions. On the other hand, the supplementary fixed advances granted amounted to Fr 71 millions. Thrift was again marked. New deposits in savings and deposit books of the 52 banks exceeded withdrawals in the first five months of the year by Fr 219 millions and the aggregate of medium term bank bonds rose by Fr 98 millions.

Interest rates on the short term market kept at about the same level as in the first quarter year: Call money 1%, three months' bills 1½%. The rates for medium term bank bonds declined at several institutes so that the average rate of interest at the five great commercial banks at the end of June stood at 2.47% as against 2.70% at the end of March.

On the capital market, bond prices were driven upwards by the strong demand for investments. The average yield of first-grade state securities therefore sank to 2.33% at the beginning of June and has since recovered only slightly to 2.38%. Present market

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conditions are favorable for new issues and conversions, so that the number of inland bonded loans offered for public subscription in the first five months of the year rose to 22. Their total issue value was Fr 333 millions of which Fr 121 millions were destined for conversions, so that new demands made on the market aggregated Fr 212 millions as against Fr 232 millions in the same period of last year. The greater part of the money went to electricity works. At the beginning of June, subscriptions to the first foreign loan of the year opened. The Fr 50 millions World Bank loan was a complete success. From the beginning of the year till the end of May, share issues totalled Fr 38 millions.

3. Foreign Exchange

On the Swiss foreign exchange market, a new relaxation of the regulations came into effect on 18 May, inasmuch as authorized banks were granted permission to conduct arbitrage in the currencies of Belgium, Denmark, France, Great Britain, Netherlands, Sweden and West Germany.

In the second quarter of the year, the rate of exchange of the dollar continued weak at Fr 4.28½. The heavy offer of dollars was maintained by the lasting surplus in the balance of trade with the US. On the other hand, the rate of exchange of the Canadian dollar in April and May declined from Fr 4.36 to Fr 4.30. Since then the rate has fluctuated around 4.30-4.31. The £ sterling improved in April and May from Fr 12.17½ to Fr 12.22, but declined again in June and July to Fr 12.18½. The official rate of exchange of the French franc did not change, the banknote rate sank for a time to Fr 1.01½ for ffrs 100, but recovered again to Fr 1.07¼.

4. Stock Exchange

The uncertainty about the economic future caused by prospects of a relaxation of tension in the international situation influenced stock exchange business in Switzerland also. In the second quarter year, a certain indecision prevailed. The trend of prices showed little uniformity. Turnover decreased. Investors turned their attention to bank and insurance shares whose prices rose slightly after the end of April. Most industrial share prices have declined a few points since the end of March. One exception was the price of shares of power station companies. On the bond market, home securities reached new peaks for the year. Of foreign bonds, the greatest rise in prices was in German and Austrian securities.

5. Tourist Trade

Frequency in the tourist business in this year's winter season (December to February) slightly exceeded that of the winter season 1951-52. In hotels and pensions 3,005,000 guest nights were registered. Of these, 1,298,000 were those of guests from foreign countries, or 37 thousand more than the year before. By comparison with the winter season 1951-52, guests from Germany, Scandinavia, the US and South America contributed a greater number of guest nights, while the frequency of English guests was about 15% lower than that of the year before. The number of Swiss tourists was slightly greater than before (2%).

As far as the number of guests was concerned, the spring season in Tessin and at the Lake of Geneva was satisfactory. The number of tourists visiting the great cities was also good. Since a number of countries - notably Great Britain, Germany, Denmark and the Netherlands - raised the basic travel allowance, prospects for the summer season are favorable.

6. Building Trades

According to the latest statistics, the volume of building activity in Switzerland in 1952 amounted in value to Fr 2763 millions. By comparison with 1951, the amount spent on the construction of dwellings decreased by 16% to Fr 992 millions, whereas building activity in industry and trade showed a strong increase by 15% to Fr 582 millions. Public building, including the construction of power works, also increased, namely, by 11% to Fr 1189 millions.

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Building plans for 1953 aggregate in value Fr 2928 millions. Public building is to increase further by 10%, the amount to be spent on the construction of dwellings by 6% and on building for industry and trade by 2% over the amounts for 1952.

In the first five months of the current year, the number of apartments newly erected in towns (4993) was about 14% lower than in the corresponding period of the year before. As, however, since last autumn, there was an increase in the number of building permits granted, the number of apartments under construction should have increased since March. Fewer plans for industrial buildings were submitted for approval during the first quarter of 1953 than in any quarter of 1952. Besides that, the 446 plans approved concerned rationalizations rather than new constructions and extensions.

In spring, occupation in the building trade was just as good as in the year before. At the end of May, only 136 workers in the building trade were registered as totally unemployed. On the other hand, altogether 23,081 workers arrived from other countries in March, April and May, or about 3,500 more than in the same months of 1952.

7. Machine and Metal Industries

In the first quarter of 1953, occupation in the machine and metal industries decreased distinctly. At the end of March, 51% of the works, comprising 61% of all workers, reported that employment in this branch was good, whereas in the preceding quarter, 56% of all works said employment was good. In the first quarter of the year, the number of occupied workers decreased on the average by 1.8% and the amount of overtime could be reduced.

In general, competition is becoming keener. Prices are under pressure. Terms of payment are becoming less satisfactory. Despite the resulting decline in the intake of orders, most firms still have a considerable reserve of work on hand. Taken as a whole, the machine and apparatus industry on the average has enough unexecuted orders to assure employment for seven months. In the metal goods industry, the reserve of work is smaller, turnovers for the major part being either stationery or decreasing. But all works engaged in the manufacture of machine parts are well occupied.

Both in quantity and value, the export of machines has decreased since March, but the delivery of instruments and apparatus to foreign countries remained about the same.

8. Watch Industry

The over-employment of last year decreased slightly in the first quarter of 1953. The number of workers occupied in the watch industry decreased by 0.4%. 44% of the works employing 64% of all the workers reported that occupation was good as against 78% of the works a year ago. An increasing number of works describe the prospects of employment in the near future as uncertain.

The export of complete watches, above all those of cheaper grades, has decreased since the beginning of the year, but foreign sales of watch movements have somewhat improved.

9. Textile Industry

On the whole, the situation in the textile industry has improved, but is still unstable. In the first quarter of 1953, and in the months of April and May, export possibilities were relatively favorable. In view of the uncertainty of price fluctuations, the home trade continued cautious in placing orders. Consequently the industry in general complains of the dearth of longrange orders. In the first quarter of the year, the number of workers changed only inappreciably. In order to keep their promises of quick deliveries, many works, especially in the silk, artificial fibre, wool and textile-processing industries, increased the amount of overtime.

In the cotton goods industry, the production of staple lines was slack, but the sale of specialties and fashion goods was satisfactory. In the first quarter of the year, the output of yarn was less than in the corresponding period of the previous year. The weaving mills also reported that output was smaller than a year earlier. In the second quarter, however, intake of orders increased again and the curtailment of production, in force since April 1952, could be partially suspended.

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In the first quarter of the year, the silk and artificial fibre industry was well occupied. The silk ribbons industry reported an improvement in the inflow of orders. On the other hand, the mills weaving silk fabrics reported increased caution among their customers in placing orders. The production and export of artificial fibres recovered.

The embroidery industry continues to be fully occupied. The exploitation of the capacity of the Schiffli embroidering machines rose to 96.5% and the number of occupied workers increased by 1.5%, during the first quarter of the year.

In the woolens industry, the degree of occupation and prospects of employment have improved, but in consequence of the low prices of finished products, earnings were unsatisfactory.

In the knitting and woven goods industry, sales for next autumn and winter have started well.

10. Foreign Trade

Swiss foreign trade in millions of francs:

	<u>I M P O R T S</u>		<u>E X P O R T S</u>		Balance of Trade
	Total	From Europe	Total	To Europe	
First quarter 1952	1403	896	1141	648	-262
First quarter 1953	1167	781	1226	740	59
April 1953	413	279	404	236	- 9
May 1953	401	268	395	214	- 6
June 1953	445	290	435	248	- 10

After foreign trade closed with a surplus in the month of March also, the export surplus of Switzerland in the first quarter of 1953 amounted to Fr 59 millions. About 80% of the decrease in the value of imports by comparison with the first quarter of the preceding year was due to the decline in the import of raw materials, a somewhat large part of the shrinkage being attributable to lower prices. In the first three months of this year, the import quantities index for raw materials was 26%, 23% and 12%, respectively, below the level of the corresponding months of the year before. On the other hand, despite increasing competition, export was above the level of last year, both by quantity and by value. However, the maintenance of the high level of export is partly due to the execution of orders placed with the metal working industries long ago. High grade export goods continue to command good sales. On the other hand, the export of products of cheaper quality encounters difficulty.

In the months of April, May and June, the situation in foreign trade changed little. Whereas imports on the whole were somewhat less than in the year before, the value of exports was higher than last year. The quantities index of exported manufactures even exceeded that of the year before by 25% in April, 4% in May and 31% in June. Therefore, the balance of trade showed an extraordinarily low deficit, depending exclusively on European business.

In clearing payments through the EPU, Switzerland had surpluses in March, April, May and June of Fr 101 millions, Fr 38 millions, Fr 65 millions and Fr 50 millions respectively, so that the regular quota of Fr 1093 millions has now been entirely utilized and the supplementary quota of Fr 550 millions had to be claimed to the amount of Fr 36 millions.

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